

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Fall River
Contributory Retirement System
For the Five-Year Period
January 1, 1997 - December 31, 2001
PERAC 01: 07-035-14**

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January 9, 2004

The Public Employee Retirement Administration Commission has completed an examination of the Fall River Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, 1997 to December 31, 2001. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC, and on file at PERAC, are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Mary Dundas Hayden who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Fall River Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

GENERAL ADMINISTRATION:

The offices of the Fall River Contributory Retirement System were in poor order at the time of this audit. A variety of floor coverings were in use, resulting in the floor level changing throughout the rooms. There were uncovered holes in the floor where electrical outlets used to be, large tears in the carpeting, and electrical boxes randomly protruding several inches out of the floor. These all posed significant hazards to members and retirees.

The Board has not purchased fireproof file cabinets for storing records. Storage space for office supplies appeared to be insufficient as well, as they were piled throughout the rooms.

Recommendation: The Board must name a Custodian of the Records who shall implement a system to adequately protect membership records from fire. It should also improve office conditions by removing current hazards, thereby protecting members and retirees, some of whom are already disabled.

Board Response:

The Board will be discussing various options and will take action to eliminate the obvious hazards and provide sufficient space to properly store supplies and records.

RECORD RETENTION:

The Treasurer disposed of the System's reports and bank statements in her custody dated prior to 1/1/01. Checks cancelled through 1994 were also discarded. In the report to the Secretary of State's office, these records were inadvertently certified as audited City property. This was done without the knowledge and/or authorization of the Board.

Recommendation: The Board is responsible for setting its own policies regarding all operational and procedural matters. The Treasurer can only act at the explicit direction of the Retirement Board. The Board should review record retention and storage of files to ensure that all personnel are familiar and comply with the regulation promulgated by the Secretary of State.

Board Response:

The Treasurer has been made aware of the significance of her error in disposing of retirement system records and will now retain all records until instructed otherwise, in writing, by the retirement board.

ANNUAL STATEMENT:

The membership exhibit figures for active, retired, and total members at the end of a year do not match the opening figures for the subsequent year.

Fall River Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

Recommendation: A review of the membership reports generated by TACS should be immediately undertaken and tested for accuracy. If the problem persists, TACS should be consulted and any program errors corrected.

Board Response:

This had been an ongoing problem that was ultimately resolved in 2002.

CASH:

The Treasurer is not making the payments from Retirement Board funds as directed by Board vote and presentation of approved vouchers to her office. The Treasurer has provided retirement office staff with her signature stamp for their use in making payments from the System's funds.

The Treasurer has not completed cash reconciliations, nor has she reviewed those completed by the Executive Director.

A review of the most recent bank reconciliations revealed items unpaid for greater than six months. The payroll account had two items outstanding totaling \$1,000, while the expense account had 103 items outstanding for longer than six months. These items were valued at approximately \$33,000.

Recommendation: The Treasurer has a fiduciary responsibility for the care and custody of retirement funds as outlined in G.L. c. 32, § 23(2)(a). It is incumbent upon her to disburse funds authorized by the Board.

Bank reconciliations for all open accounts need to be completed monthly, reviewed by both the Treasurer and the Executive Director, and approved by the Board at the subsequent meeting. Given the poor maintenance and reconciliation of retirement accounts by the Treasurer's office, it is recommended that the retirement office take over the functions involved in ensuring the security of retirement funds, while complying with the required segregation of duties. This will primarily involve monthly reconciliation of all accounts, and safeguarding those reconciliations, statements, and cancelled checks for future reference by staff and PERAC auditors.

Any uncashed items older than six months should be researched, so that the proper voiding and recording of these items can be completed.

Board Response:

Treasurer now makes payments as instructed by Board on signed vouchers. Board staff no longer stamps retirement checks. Treasurer or her staff now completes this function.

Executive Director continues to perform monthly reconciliation of all retirement system accounts. Original recons are kept in retirement office and a copy is available for Treasurer review.

Fall River Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

Payroll and expense accounts noted in this report have been closed and outstanding checks cancelled or re-issued.

EXPENSES:

Warrants have been paid which did not have the minimum two Board-approved signatures, as required by G.L. c. 32, § 23(2). In 1997, two or more members of the Board or their designee signed only 12% of warrants issued.

Some disbursements recorded in the Administrative Expenses account should have been expensed to the Consulting Services account. This was true for fees paid to such vendors as TACS, Financial Advisory Associates, Inc., and Buck Consultants.

Some of the vouchers submitted for travel expenses were not supported by detailed receipts. Details for charges such as hotel rooms and meals are necessary to verify dates and validity of the expenses. Board members' signatures were absent from their reimbursement request forms.

Recommendation: Warrants must not be processed unless signed by at least two parties approved by the Board and recorded in the minutes. The Executive Director should regularly review general ledger entries to ensure proper classification of expenses. She should then provide office staff with the names of vendors and their usual account classification.

Board members must sign expense vouchers prior to submitting them for reimbursement. These vouchers must contain detailed receipts, so that charges can be validated.

Board Response:

Prior to 1998, original warrants with required signatures were given to the Treasurer for processing. Staff copied office copy of warrant prior to obtaining required signatures. This erroneous practice was abandoned in 1998. Board now maintains original warrants with required signatures and copies are forwarded to the Treasurer for processing.

REFUNDS:

A review of the refunds issued by the System during the audit period revealed that 80% of the withdrawal applications were incomplete. The Board utilizes its own refund breakdown form in lieu of Section C of PERAC's Application for Withdrawal of Accumulated Total Deductions.

Recommendation: The Executive Director must ensure that the required forms are complete and signed by the appropriate parties prior to issuing refunds to members exiting the System.

Fall River Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

Board Response:

All refunds are approved by Board prior to payment and are reflected in Board minutes. The Board has found the completion of Section C of PERAC's refund application a duplication of effort, since our software is able to provide the necessary information. However, we will begin completing this section of the PERAC form in addition to maintaining the automated records.

MEMBERSHIP:

Membership reports generated by the TACS system showed up to 38% of membership having contribution or incremental rates that conflict with their original dates of membership. This stems primarily from the System's method of recording buybacks of creditable and/or military service. Another factor is the recording of waiting periods, during which members were not allowed in the System.

Errors in the incremental deduction amount withheld were found in 16% of members sampled. Of this group, 83% were having too little withheld, while 10% were having too much withheld from their checks. Additionally, of the 84% whose deductions were within the range of accuracy, all of them were paying eight to nine cents too much per paycheck.

The school department is withholding retirement deductions from some employees who work as substitute teachers. This work is not considered regular compensation, and therefore is not subject to retirement contributions. Some positions in the school department have membership in the City's retirement system, while others in apparently similar positions are transferred to the Massachusetts Teachers' Retirement Board.

Recommendation: A uniform system to report member contributions must be instituted. The system should be consistent with M.G.L. c 32 § 22 (1)(h) and include the following member information:

1. Name
2. Social Security number or employee number
3. Compensation by type: total, regular, overtime and 2% excess
4. Contribution amount
5. Contribution rate
6. Membership date
7. Any other information deemed appropriate.

The Executive Director should review detailed payroll information and correct errors in contributions paid to the System. She should then take the appropriate steps to collect underpayments and refund overpayments made to the System. It is recommended that all members with membership dates later than 1/1/79 be classified as subject to the additional 2% withholding.

Fall River Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

An assessment of the various pay categories should be performed in conjunction with payroll personnel from each department to further ensure that the appropriate pay types are considered regular compensation. A review of the administrative positions within the school department should be performed to check that membership exists in the proper retirement system. The Executive Director should annually receive a listing of personnel who do not contribute to the Retirement System to verify accuracy in that respect.

Board Response:

The Executive Director has advised City of proper method to be used in calculating the 2% deduction.

Executive Director has reviewed status of the school department employees in question and found they are eligible for membership and having the proper retirement deduction withheld.

The Executive Director has reviewed with the City the different pay types to ensure only those considered regular compensation have retirement deductions withheld. Board reviews all new pay types prior to payment by City.

RETIREEES:

Witness signatures on the retiree's option selection form were either missing, or the beneficiary also witnessed the selection for most of this sample.

Recommendation: Forms completed during the retirement process must be duly signed and witnessed. For the retiree's protection, the witness to his/her application and selection of benefit should be someone other than the beneficiary him/herself.

Board Response:

All members who retired during the audit period had their option forms signed by a witness. With regards to the beneficiary signing the Option form, the Board believes the member has the right to select whom he/she shares this information with and signs before. Retirement Board employees are discouraged from signing as a witness, based on the advice of PERAC legal staff at an educational seminar a few years back.

MINUTES:

The Board's appointee averaged a 77% attendance rate during the six years of minutes reviewed. In addition, he did not sign the minutes for 34% of the meetings at which he was in attendance. Overall, members' signatures were missing from 16% of the minutes recorded.

Fall River Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. The Board may want to consider changing the times of Board meetings in order to accommodate its own appointee, whose contributions are valued. Members must certify the records of meetings at which they were present.

Board Response:

The Board schedules all meetings at the convenience of the majority in order to assure a quorum. The Board defends the attendance record of the board appointee. Of the 5 years of minutes reviewed (1997 to 2001), the Board held 72 meetings of which 17 the board appointee was unable to attend. This member is a businessman who is extremely conscious of his obligation to the members of the system and his fellow trustees. He regularly adjusts his personal & professional schedule to accommodate the Board.

Final Determination:

PERAC auditors will follow up in six (6) months to ensure that appropriate actions have been taken regarding all audit findings.

Fall River Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2001	2000	1999	1998
Cash	\$5,979,092	\$4,503,761	\$5,357,558	\$3,275,978
Short Term Investments	0	0	0	0
Fixed Income Securities (at book value)	89,788,716	89,835,694	46,182,971	40,696,274
Equities	58,201,679	64,137,426	73,470,395	60,383,562
Pooled Venture Capital Funds	0	0	0	0
Pooled Domestic Equity Funds	33,025,826	37,361,883	43,877,647	45,547,594
Pooled International Equity Funds	12,981,902	15,854,370	13,234,292	10,111,785
Pooled Global Equity Funds	0	0	0	0
Pooled Domestic Fixed Income Funds	0	0	32,606,914	32,819,860
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	0	0	0	0
Pooled Real Estate Funds	0	0	0	0
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	1,503,334	1,476,817	744,998	676,536
Accounts Receivable	5,604,341	5,972,371	5,874,656	5,807,339
Accounts Payable	271,971	457,091	282,191	152,468
TOTAL	<u>\$206,812,920</u>	<u>\$218,685,230</u>	<u>\$221,067,240</u>	<u>\$199,166,461</u>
FUND BALANCES				
Annuity Savings Fund	\$53,037,427	\$50,688,913	\$47,516,188	\$45,727,657
Annuity Reserve Fund	15,717,316	14,576,586	14,433,080	13,809,944
Pension Fund	20,745,748	26,383,215	29,473,178	32,448,685
Military Service Fund	13,450	14,866	14,561	14,247
Expense Fund	0	0	0	0
Pension Reserve Fund	117,298,979	127,021,650	129,630,235	107,165,928
TOTAL	<u>\$206,812,920</u>	<u>\$218,685,230</u>	<u>\$221,067,240</u>	<u>\$199,166,461</u>
Note: Information for 1997 not shown, but available upon written request.				

Fall River Retirement System
STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 2001**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Ending Balance (1997)	<u>\$43,083,890</u>	<u>\$13,712,729</u>	<u>\$34,512,892</u>	<u>\$13,913</u>	<u>\$0</u>	<u>\$75,652,740</u>	<u>\$166,976,164</u>
Receipts	4,982,435	409,277	12,319,265	334	926,501	31,444,546	<u>\$50,082,358</u>
Interfund Transfers	(1,444,532)	1,363,919	11,972	0	0	68,642	<u>(\$0)</u>
Disbursements	<u>894,136</u>	<u>1,675,980</u>	<u>14,395,444</u>	<u>0</u>	<u>926,501</u>	<u>0</u>	<u>\$17,892,061</u>
Ending Balance (1998)	<u>\$45,727,657</u>	<u>\$13,809,944</u>	<u>\$32,448,685</u>	<u>\$14,247</u>	<u>\$0</u>	<u>\$107,165,928</u>	<u>\$199,166,461</u>
Receipts	5,355,067	421,050	11,955,992	313	934,514	22,464,298	<u>\$41,131,234</u>
Interfund Transfers	(1,921,831)	1,937,124	(15,303)	0	0	9	<u>(\$0)</u>
Disbursements	<u>1,644,705</u>	<u>1,735,039</u>	<u>14,916,196</u>	<u>0</u>	<u>934,514</u>	<u>0</u>	<u>\$19,230,454</u>
Ending Balance (1999)	<u>\$47,516,188</u>	<u>\$14,433,080</u>	<u>\$29,473,178</u>	<u>\$14,561</u>	<u>\$0</u>	<u>\$129,630,235</u>	<u>\$221,067,240</u>
Receipts	5,683,685	433,926	12,624,138	306	1,077,560	(2,586,914)	<u>\$17,232,702</u>
Interfund Transfers	(1,553,117)	1,575,056	(268)	0	0	(21,671)	<u>\$0</u>
Disbursements	<u>957,844</u>	<u>1,865,476</u>	<u>15,713,833</u>	<u>0</u>	<u>1,077,560</u>	<u>0</u>	<u>\$19,614,713</u>
Ending Balance (2000)	<u>\$50,688,913</u>	<u>\$14,576,586</u>	<u>\$26,383,215</u>	<u>\$14,866</u>	<u>\$0</u>	<u>\$127,021,650</u>	<u>\$218,685,230</u>
Receipts	5,836,231	452,173	10,705,452	259	1,095,160	(9,700,141)	<u>\$8,389,134</u>
Interfund Transfers	(2,602,945)	2,641,272	(14,122)	(1,675)	0	(22,530)	<u>\$0</u>
Disbursements	<u>884,772</u>	<u>1,952,715</u>	<u>16,328,797</u>	<u>(12,000)</u>	<u>1,095,160</u>	<u>0</u>	<u>\$20,249,444</u>
Ending Balance (2001)	<u>\$53,037,427</u>	<u>\$15,717,316</u>	<u>\$20,745,748</u>	<u>\$25,450</u>	<u>\$0</u>	<u>\$117,298,979</u>	<u>\$206,824,920</u>

Note: Information for 1997 not shown, but available upon written request.

Fall River Retirement System

STATEMENT OF INCOME

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,				
	2001	2000	1999	1998
Annuity Savings Fund:				
Members Deductions	\$4,657,842	\$4,331,248	\$4,270,160	\$3,815,048
Transfers from other Systems	105,525	253,148	87,577	129,080
Member Make Up Payments and Redeposits	149,273	129,170	41,875	35,482
Investment Income Credited to Member Accounts	<u>923,591</u>	<u>970,119</u>	<u>955,454</u>	<u>1,002,825</u>
Sub Total	<u>5,836,231</u>	<u>5,683,685</u>	<u>5,355,067</u>	<u>4,982,435</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>452,173</u>	<u>433,926</u>	<u>421,050</u>	<u>409,277</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	245,703	117,134	113,600	93,954
Received from Commonwealth for COLA and Survivor Benefits	1,640,733	1,890,704	1,329,463	1,810,830
91A Excess Earnings	1,551	0	0	0
Pension Fund Appropriation	<u>8,817,465</u>	<u>10,616,300</u>	<u>10,512,929</u>	<u>10,414,481</u>
Sub Total	<u>10,705,452</u>	<u>12,624,138</u>	<u>11,955,992</u>	<u>12,319,265</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>259</u>	<u>306</u>	<u>313</u>	<u>334</u>
Sub Total	<u>259</u>	<u>306</u>	<u>313</u>	<u>334</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>1,095,160</u>	<u>1,077,560</u>	<u>934,514</u>	<u>926,501</u>
Sub Total	<u>1,095,160</u>	<u>1,077,560</u>	<u>934,514</u>	<u>926,501</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	401,327	367,610	394,618	403,858
Pension Reserve Appropriation	0	14,814	14,814	14,814
Interest Not Refunded	24,008	12,387	15,967	7,682
Excess Investment Income	<u>(10,125,476)</u>	<u>(2,981,724)</u>	<u>22,038,899</u>	<u>31,018,192</u>
Sub Total	<u>(9,700,141)</u>	<u>(2,586,914)</u>	<u>22,464,298</u>	<u>31,444,546</u>
TOTAL RECEIPTS	<u>\$8,389,134</u>	<u>\$17,232,702</u>	<u>\$41,131,234</u>	<u>\$50,082,358</u>
Note: Information for 1997 not shown, but available upon written request.				

Fall River Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,				
Annuity Savings Fund:	2001	2000	1999	1998
Refunds to Members	\$506,982	\$510,271	\$457,295	\$548,487
Transfers to other Systems	<u>377,790</u>	<u>447,573</u>	<u>1,187,410</u>	<u>345,649</u>
Sub Total	<u>884,772</u>	<u>957,844</u>	<u>1,644,705</u>	<u>894,136</u>
Annuity Reserve Fund:				
Annuities Paid	1,887,428	1,776,565	1,697,626	1,631,436
Option B Refunds	<u>65,287</u>	<u>88,911</u>	<u>37,413</u>	<u>44,544</u>
Sub Total	<u>1,952,715</u>	<u>1,865,476</u>	<u>1,735,039</u>	<u>1,675,980</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	8,647,261	8,322,720	7,964,240	7,739,197
Survivorship Payments	956,214	910,292	836,392	801,971
Ordinary Disability Payments	393,416	383,599	384,738	403,911
Accidental Disability Payments	3,941,076	3,861,877	3,578,210	3,427,352
Accidental Death Payments	1,706,365	1,598,424	1,529,020	1,388,292
Section 101 Benefits	188,915	164,358	153,825	148,724
3 (8) (c) Reimbursements to Other Systems	495,548	472,563	469,772	485,997
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>16,328,797</u>	<u>15,713,833</u>	<u>14,916,196</u>	<u>14,395,444</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	14,750	15,000	15,000	15,000
Salaries	155,664	153,923	142,230	134,436
Legal Expenses	12,000	12,000	13,988	2,408
Medical Expenses	0	0	0	0
Travel Expenses	5,115	10,374	7,088	5,372
Administrative Expenses	54,987	41,506	34,097	35,103
Furniture and Equipment	53,256	0	1,368	0
Management Fees	688,757	704,720	605,561	681,292
Custodial Fees	73,475	78,430	65,182	52,891
Consultant Fees	<u>37,156</u>	<u>61,608</u>	<u>50,000</u>	<u>0</u>
Sub Total	<u>1,095,160</u>	<u>1,077,560</u>	<u>934,514</u>	<u>926,501</u>
TOTAL DISBURSEMENTS	<u>\$20,261,444</u>	<u>\$19,614,713</u>	<u>\$19,230,454</u>	<u>\$17,892,061</u>
Note: Information for 1997 not shown, but available upon written request.				

Fall River Retirement System

INVESTMENT INCOME

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,				
	2001	2000	1999	1998
Investment Income Received From:				
Cash	\$102,344	\$246,102	\$145,640	\$172,764
Short Term Investments	0	0	0	0
Fixed Income	6,645,752	4,508,021	2,982,076	2,652,316
Equities	652,753	611,981	735,376	646,835
Pooled or Mutual Funds	<u>688,736</u>	<u>841,387</u>	<u>755,741</u>	<u>0</u>
Commission Recapture	<u>16,423</u>	<u>18,677</u>	<u>20,520</u>	<u>17,419</u>
TOTAL INVESTMENT INCOME	<u>8,106,008</u>	<u>6,226,168</u>	<u>4,639,353</u>	<u>3,489,335</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	20,762	16,256
Realized Gains	4,982,534	12,899,989	12,669,257	5,667,240
Unrealized Gains	15,018,374	23,776,021	29,172,157	31,880,295
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>1,503,334</u>	<u>1,476,817</u>	<u>744,998</u>	<u>676,536</u>
Sub Total	<u>21,504,242</u>	<u>38,152,827</u>	<u>42,607,174</u>	<u>38,240,327</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	3,476	89,936
Paid Accrued Interest on Fixed Income Securities	551,973	989,477	274,481	230,464
Realized Loss	12,335,383	16,876,095	6,905,440	4,826,400
Unrealized Loss	22,900,370	26,268,238	15,036,363	2,586,405
Custodial Fees Paid	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>1,476,817</u>	<u>744,998</u>	<u>676,536</u>	<u>639,328</u>
Sub Total	<u>37,264,543</u>	<u>44,878,807</u>	<u>22,896,296</u>	<u>8,372,533</u>
NET INVESTMENT INCOME	<u>(7,654,293)</u>	<u>(499,812)</u>	<u>24,350,231</u>	<u>33,357,129</u>
Income Required:				
Annuity Savings Fund	923,591	970,119	955,454	1,002,825
Annuity Reserve Fund	452,173	433,926	421,050	409,277
Military Service Fund	259	306	313	334
Expense Fund	<u>1,095,160</u>	<u>1,077,560</u>	<u>934,514</u>	<u>926,501</u>
TOTAL INCOME REQUIRED	<u>2,471,183</u>	<u>2,481,912</u>	<u>2,311,332</u>	<u>2,338,936</u>
Net Investment Income	<u>(7,654,293)</u>	<u>(499,812)</u>	<u>24,350,231</u>	<u>33,357,129</u>
Less: Total Income Required	<u>2,471,183</u>	<u>2,481,912</u>	<u>2,311,332</u>	<u>2,338,936</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$10,125,476)</u>	<u>(\$2,981,724)</u>	<u>\$22,038,899</u>	<u>\$31,018,192</u>

Note: Information for 1997 not shown, but available upon written request.

Fall River Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$5,979,092	\$5,979,092	2.99%	40
Short Term			0.00%	100
Fixed Income	89,788,716	89,788,716	44.90%	40-80
Equities	58,201,679	58,201,679	29.10%	60*
Pooled Short Term Funds			0.00%	
Pooled Domestic Equity Funds	33,025,826	33,025,826	16.51%	60*
Pooled International Equity Funds	12,981,902	12,981,902	6.49%	5*
Pooled Global Equity Funds			0.00%	
Pooled Domestic Fixed Income Funds			0.00%	
Pooled International Fixed Income Funds			0.00%	
Pooled Global Fixed Income Funds			0.00%	
Pooled Alternative Investment Funds			0.00%	
Pooled Real Estate Funds			0.00%	
Pooled Domestic Balanced Funds			0.00%	
Pooled International Balanced Funds			0.00%	
PRIT Cash Fund			0.00%	
PRIT Core Fund			0.00%	100
GRAND TOTALS	<u>\$199,977,215</u>	<u>\$199,977,215</u>	<u>100.00%</u>	
* Total Equities Not To Exceed 60%, Including International Equities, Which Shall Not Exceed 5%				

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ended December 31, 2001, the rate of return for the investments of the Retirement System was -3.55%. For the five-year period ended December 31, 2001, the rate of return for the investments of the Retirement System averaged 9.23%. For the seventeen-year period ended December 31, 2001, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Retirement System was 11.00%.

Fall River Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

The Fall River Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

August 22, 1996

- 20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities, which shall not exceed 5% of the portfolio valued at market.
- 20.04 All investments shall consist of recognized quality marketable securities issued by:
 - (1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

September 7, 1995

- 20.03(2) At least 40%, but no more than 80%, of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including Yankee Bonds and Eurobonds, which shall be limited to 12% of the total fixed income portfolio valued at market.
- 16.02(4) The Board may employ a custodian bank and may charge such expenses against earned income from investments, provided that such expenses shall not exceed in any one year .08% of the value of the fund.

November 19, 1993

- 20.04(6) American Depositary Receipts denominated in U.S. currency and listed on the New York Stock Exchange, provided that the total of all such investments shall be considered part of the Board's equity allocation and shall not exceed 10% of the total market value of the portfolio.
- 20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short-term obligations.
- 20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

Fall River Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.

Fall River Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Fall River Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Fall River Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 13, 1991

To allow provisional employees to have deductions for retirement effective with actual starting date of employment.

February 27, 1992

To allow permanent 20-hour employees to establish membership in the System.

Fall River Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

May 9, 1995

Creditable service for all part-time employees who are members shall be pro-rated according to the following formula:

$$\frac{\text{Number of days worked}}{\text{Full Week}} \times 12 = \text{creditable service}$$

Example:

$$\frac{30 \text{ hours}}{40 \text{ hours}} \times 12 = 9 \text{ months creditable service}$$

Fall River Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Douglas Fiore

Mayor's Appointee:	Anthony Cordeiro	Term Expires:	At discretion of Mayor
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Elected Member:	Joseph Almeida	Term Expires:	12/31/05
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Elected Member:	David Machado	Term Expires:	12/11/04
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Board's Appointee:	Arthur Viana	Term Expires:	1/27/03
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The Board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$30,000,000
		Fiduciary Liability
Ex officio Member:)	Travelers (\$10M Primary)
Elected Members:)	Federal Insurance Co. (Chubb Group)
		(\$10M Excess of Primary)
Appointed Members:)	Executive Risk Indemnity, Inc. (\$10M
		Excess of \$20M)
Staff Employees:)	\$1,000,000
		Commercial Crime – Employee Dishonesty

Fall River Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Buck Consultants** as of **January 1, 2001**.

The actuarial liability for active members was	\$142,012,558
The actuarial liability for retired and inactive members was	<u>127,505,103</u>
The total actuarial liability was	269,517,661
System assets as of that date were	<u>218,685,230</u>
The unfunded actuarial liability was	<u>\$50,832,431</u>
 The ratio of system's assets to total actuarial liability was	 81.1%
As of that date the total covered employee payroll was	\$ 57,900,220

The normal cost for employees on that date was 7.36% of payroll

The normal cost for the employer was 6.50% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2001	\$ 218,685,230	\$ 269,517,661	\$ 50,832,431	81.1%	\$ 57,900,220	87.79%
1/1/1999	\$ 201,384,418	\$ 263,664,168	\$ 62,279,750	76.4%	\$ 50,903,272	122.35%
1/1/1997	\$ 141,033,895	\$ 231,255,666	\$ 90,221,771	61.0%	\$ 46,693,967	193.22%
1/1/1995	\$ 104,022,586	\$ 185,547,867	\$ 81,525,281	56.1%	\$ 43,010,962	189.55%

Fall River Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Superannuation	37	43	49	21	38	31	27	43	36	48
Ordinary Disability	1	2	4	3	7	2	2	0	0	5
Accidental Disability	10	5	10	5	6	9	10	7	7	10
Total Retirements	48	50	63	29	51	42	39	50	43	63
Total Retirees, Beneficiaries and Survivors	1,414	1,422	1,485	1,457	1,458	1,457	1,395	1,457	1,460	1,484
Total Active Members	1,981	1,969	1,863	1,882	1,897	2,008	2,048	2,064	2,106	2,092
Pension Payments										
Superannuation	\$6,953,044	\$7,077,155	\$7,388,681	\$7,360,567	\$7,316,279	\$7,886,402	\$7,739,197	\$7,964,240	\$8,322,720	\$8,647,261
Ordinary Disability	347,198	358,580	357,760	357,618	389,464	397,033	403,911	384,738	383,599	393,416
Accidental Disability	2,907,543	2,953,654	3,095,977	3,074,758	3,154,158	3,241,858	3,427,352	3,578,210	3,861,877	3,941,076
Survivor/Beneficiary Payments	715,250	688,560	712,323	738,749	748,949	795,384	801,971	836,392	910,292	956,214
Other	<u>1,493,612</u>	<u>1,581,852</u>	<u>1,668,206</u>	<u>1,800,940</u>	<u>1,894,330</u>	<u>1,892,944</u>	<u>2,023,012</u>	<u>2,152,618</u>	<u>2,235,345</u>	<u>2,390,829</u>
Total Payments for Year	<u>\$12,416,647</u>	<u>\$12,659,801</u>	<u>\$13,222,947</u>	<u>\$13,332,632</u>	<u>\$13,503,180</u>	<u>\$14,213,621</u>	<u>\$14,395,444</u>	<u>\$14,916,196</u>	<u>\$15,713,833</u>	<u>\$16,328,797</u>